No. 86-495
86-624
86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

K MART CORPORATION;
47TH STREET PHOTO, INC.;
and THE UNITED STATES OF AMERICA,
Petitioners,

v.

CARTIER, INC., CHARLES OF THE RITZ GROUP, LTD., and COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS,
Respondents.

AMICUS CURIAE BRIEF OF THE AMERICAN FREE TRADE ASSOCIATION IN SUPPORT OF PETITIONS FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

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QUESTION PRESENTED

Is a Customs Service regulation, which permits the importation of foreign-manufactured merchandise bearing a trademark identical to a U.S. registered trademark when (1) the foreign and U.S. trademark are owned by the same person; (2) the foreign and U.S. trademark owners are subject to common ownership or control; or (3) the trademark was applied under authorization of the U.S. trademark owner, a valid interpretation of Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, based upon the legislative history of the Act and its 1922 predecessor and upon approximately fifty years of administrative enforcement of this policy and Congressional acquiescence?

PARTIES TO THE PROCEEDING

The petitioners are K mart Corporation; 47th Street Photo, Inc.; and the United States of America. The respondents are Cartier, Inc.; Charles of the Ritz Group, Ltd.; and Coalition to Preserve the Integrity of American Trademarks (COPIAT). The petitions have been consolidated for consideration by the Court, upon Motion of petitioner United States of America.

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AMICUS CURIAE BRIEF OF THE AMERICAN FREE TRADE ASSOCIATION IN SUPPORT OF PETITIONS FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

The American Free Trade Association respectfully submits this brief as amicus curiae in support of the petitions for a writ of certiorari to the United States Court of Appeals for the District of Columbia Circuit filed by K mart Corporation, 47th Street Photo, Inc. and the United States of America. The petitions have been consolidated for consideration by the Court, upon motion of petitioner United States of America.[1]

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[1] Pursuant to Rule 36.1 of this Court, consent to the filing of this brief has been granted by all parties. Their consents have been filed with the Clerk.

INTEREST OF AMICUS CURIAE

The American Free Trade Association is an incorporated trade association of independent American importers, distributors and wholesalers of parallel import fragrances, colognes, and health and beauty aids, such as shampoos, soaps, and other items commonly purchased in drug stores. Many of the Association's members are small businesses. They are located throughout the United States and employ more than 1,500 people. AFTA members in turn supply other distributors, wholesalers, and numerous, well-known retail outlets which employ many thousands more.[2] Many of the Association's members have been in the parallel import business for more than a dozen years.

Parallel imports are genuine trademarked consumer products, such as fragrances, 35mm cameras, electronic products, and watches, which are manufactured abroad and imported by independent American importers rather than by "authorized" U.S. importers and distributors. Parallel imports exist because the manufacturers, for reasons of their own, seek significantly higher prices for their products in the United States than elsewhere in the world. They do this by creating wholly-owned or controlled subsidiaries in this country, designating those companies as the exclusive "authorized" importers and distributors for their products here, and refusing to sell to retailers who will not maintain the higher prices for the products.

The obvious result in a free enterprise, free trade market is that independent American importers can purchase the same products overseas at the world price, often directly from the manufacturers' "authorized" distributors abroad. The foreign manufacturers' price differential for the U.S. market is so great that, even after paying shipping costs and U.S. Customs duties, the parallel importer can offer the identical articles for twenty to forty percent less than the U.S. "authorized" distributor.

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[2] For example, one of the drug store chains supplied by Association members has 1,500 stores with many thousands of employees and annual sales in excess of $2 billion.

The result is a saving to American consumers amounting to billions of dollars a year. Another result is the availability of popular products to a much wider spectrum of Americans who do not live in the large cities where the exclusive authorized stores are generally located. The parallel import trade has also served as an independent bulwark against unrestrained increases in the domestic price of imported consumer goods as compared to prices available worldwide.

A substantial American industry of importers, distributors, retailers, and catalog-showroom merchandisers, with hundreds of thousands of employees, serves the millions of American consumers who buy these popular, foreign-made products at the prices they would pay if they could shop for them abroad. The retailers of parallel imports are responsible for total consumer sales of $100 billion a year. The parallel import industry also makes an enormous investment in the good will of trademarked products through its own widespread advertising and marketing of these products.

AFTA's interest in this case is very real, immediate and direct. If the decision below is not reversed, parallel importation will be effectively eliminated. AFTA's members, and all other independent U.S. importers and distributors of parallel imports, will be out of business. Retailers that sell parallel goods will also be severely injured. Because of the severity of the potential consequences, AFTA participated as an amicus curiae in this case before both the District Court and the Court of Appeals. AFTA has also participated as an amicus curiae in other cases which have considered the validity of the Customs Service regulation, *Vivitar Corp. v. United States,* 593 F. Supp. 420 (C.I.T. 1984), *aff'd,* 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied,* No. 85-411 (October 13, 1986), and *Bell and Howell: Mamiya Co. v. Masel Supply Co.,* 719 F.2d 42 (2d Cir. 1983), *vacating and remanding,* 548 F.Supp. 1068 (E.D.N.Y. 1982).

STATEMENT OF THE CASE

The law and policy of the U.S. government have permitted parallel importation for more than half a century. Customs

Service regulations, based upon the Tariff Act of 1922 and the Tariff Act of 1930, 19 U.S.C. 1526, have permitted parallel importation only under specific, narrowly-defined circumstances. The current regulation, in place since 1972, permits parallel importation only when the foreign and U.S. trademark holders are (1) the same company or (2) under common ownership or control, or (3) where the U.S. trademark owner has authorized the placing of the mark on the product. 19 C.F.R. 133.21(c). In these cases, the regulation does not permit a trademark holder to block the entry of parallel imports.

The courts have also long upheld parallel importation despite numerous challenges under trademark and tariff laws.[3] In fact, the Court of Appeals below is the first court ever to hold that Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, requires the exclusion of all parallel imports.

The respondents commenced this action before the District Court, seeking declaratory and injunctive relief, based on their claim that the Customs regulation was inconsistent with the Tariff Acts of 1922 and 1930 and the Lanham Trademark Act of 1946, 15 U.S.C. 1124. *Coalition to Preserve the Integrity of American Trademarks v. United States,* 598 F. Supp. 844 (D.D.C. 1984). The District Court rejected the respondents' claim and upheld the validity of the regulation. The District Court found that the Customs Service's long-standing interpretation of Section 526 of the Tariff Act was reasonable and supported by legislative history, judicial decisions, and legislative acquiescence. *Id.* at 852.

On appeal, the court below reversed the District Court on the ground that the Customs Service regulation is inconsistent

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[3] *See Bell and Howell: Mamiya Co. v. Masel Supply Co.,* 719 F.2d 42 (2d Cir. 1983), *vacating and remanding,* 548 F. Supp. 1068 (E.D.N.Y. 1982); *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.,* 707 F.2d 1054 (9th Cir. 1983); *Diamond Supply Co. v. Prudential Paper Products Co.,* 589 F. Supp 470 (S.D.N.Y. 1984); *El Greco Leather Products Co. v. Shoe World, Inc.,* 599 F. Supp. 1380 (E.D.N.Y. 1984); *Parfums Stern, Inc. v. United States,* 575 F. Supp. 416 (S.D. Fla. 1983); *United States v. Guerlain,* 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded,* 358 U.S. 915 (1958), *dismissed,* 172 F. Supp. 107 (S.D.N.Y. 1959).

with Section 526 of the Tariff Act and therefore invalid. *Coalition to Preserve the Integrity of American Trademarks v. United States,* 790 F.2d 903, 913 (D.C. Cir. 1986). Rejecting the reasoning of the District Court and of the U.S. Court of Appeals for the Federal Circuit, which had upheld the regulation in the *Vivitar* case, the court below held that Section 526 requires the exclusion of all parallel imports regardless of the relationship between the foreign and U.S. trademark holders.[4]

REASONS FOR GRANTING THE WRIT

The issues in this case vitally affect the interests of both consumers and thousands of businesses across the United States. The Court of Appeals with one stroke would wipe out enormous consumer savings and an entire industry. It is totally implausible that the Congress in 1922 and 1930 intended to permit foreign manufacturers to charge higher prices in the United States than they do in other world markets. The scope of products affected by the Court of Appeals decision encompasses a wide a range of popular, brand-name products which United States citizens purchase at substantial savings. Review by this Court is therefore urgently required in order to avoid the serious dislocations and adverse impact upon the public interest which would surely result from the implementation of the Court of Appeals decision.

The decision of the Court of Appeals below is in direct conflict with the decisions of the Courts of Appeals for the Federal Circuit and the Second Circuit. Prior to the Court of Appeals decision below, the Federal Circuit, in *Vivitar Corp. v. United States,* 761 F.2d 1552 (Fed. Cir. 1985) *cert. denied,* No. 85-411 (October 13, 1986), had found that the Customs Service regulation was "a reasonable exercise of administratively initiated enforcement" and therefore upheld the validity of the

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[4] However, the Court of Appeals denied respondents' demand for a permanent injunction (*id.* at 918), and upon motion of petitioners United States of America and K mart, the Court of Appeals also stayed issuance of its mandate pending the filing of petitions for certiorari to this Court.

regulation. *Id.* at 1571. After the Court below issued its decision declaring the regulation invalid, the Second Circuit, in *Olympus Corp. v. United States,* 792 F.2d 315 (2d. Cir. 1986), concluded that "congressional acquiescence in the longstanding administrative interpretation of the statute legitimates that interpretation as an exercise of Customs' enforcement discretion" and therefore upheld the regulation. *Id.* at 320.

The Customs Service, which is charged with enforcing the country's trade laws uniformly throughout the United States, has been placed in an extremely awkward position as a result of these wholly contradictory Circuit Court rulings on the validity of its regulation. Unless resolved by the Supreme Court, the split in the Circuits will encourage parties aggrieved by a Customs Service decision (either to exclude or to permit the importation of parallel goods) to forum shop for a favorable result in the Circuit of their choice. For example, should the Customs Service decide in a particular case to permit the parallel importation of goods, the Customs Service can anticipate a challenge to that decision by the "authorized distributor" of those goods in the D.C. Circuit.[5] On the other hand, should the agency decide to grant the request of a foreign manufacturer's commonly-owned U.S. affiliate to exclude the importation of "unauthorized" parallel goods, the Customs Service faces a likely challenge from parallel importers or distributors in either the Second Circuit or the Federal Circuit.

Finally, the split between the Circuit Courts of Appeal on this issue poses a severe financial threat to AFTA's members, to all importers and distributors of parallel imports, and ultimately to consumers of these products. With no assurance that trademarked goods purchased independently overseas will be permitted to enter the United States when they arrive, parallel importers will be reluctant to enter into long-term agreements or to plan future purchases. In fact, until this Court resolves the question, with every shipment into the United States parallel importers face the risk that their goods will be excluded from

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[5] In fact, such a suit was recently filed in the U.S. District Court for the District of Columbia. *Cacharel USA, Inc. v. William Von Raab, Commissioner of Customs of the United States of America,* Civ. Action No. 86-2873 (D.D.C.), *voluntarily dismissed without prejudice,* (October 27, 1986).

the country or impounded and possibly forfeited by the Customs Service as a result of judicial action in reliance upon the decision below in suits filed by foreign manufacturers or their U.S. affiliates. Similarly, distributors, wholesalers and retailers of parallel goods are unable to depend upon a steady and consistent flow of merchandise.

Only a decision by this Court can end the disruption and uncertainty caused by the decision of the Court of Appeals. AFTA respectfully urges this Court to review the decision of the lower court and to reaffirm the long-established concept that a trademark owner cannot prevent the importation into the United States of genuine merchandise which the trademark owner has placed into the stream of international commerce through either parent, subsidiary or affiliated corporations. Review by this Court is therefore necessary to prevent the destruction of a substantial segment of United States commerce and the imposition of unwarranted costs to American consumers in their purchase of imported goods.

CONCLUSION

For the foregoing reasons, the American Free Trade Association respectfully requests that the petitions for a writ of certiorari be granted.

Respectfully submitted,

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